

**REPORT OF THE AUDIT OF THE  
WEBSTER COUNTY  
SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES**

**For The Period  
February 8, 2009 Through August 6, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE WEBSTER COUNTY SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES**

**For The Period  
February 8, 2009 Through August 6, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Unmined Coal Taxes for the Webster County Sheriff for the period February 8, 2009 through August 6, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The Sheriff collected taxes of \$213,733 for the districts and distributed \$205,177 for 2008 Unmined Coal Taxes, retaining commissions of \$8,300 to operate the Sheriff's office.

#### **Report Comment:**

2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable James R. Townsend, Webster County Judge/Executive

Honorable Frankie Springfield, Webster County Sheriff

Members of the Webster County Fiscal Court

Independent Auditor's Report

We have audited the Webster County Sheriff's Settlement - 2008 Unmined Coal Taxes for the period February 8, 2009 through August 6, 2009. This tax settlement is the responsibility of the Webster County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Webster County Sheriff's taxes charged, credited, and paid for the period February 8, 2009 through August 6, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 20, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable James R. Townsends, Webster County Judge/Executive  
Honorable Frankie Springfield, Webster County Sheriff  
Members of the Webster County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 20, 2011



WEBSTER COUNTY  
FRANKIE SPRINGFIELD, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES

For The Period February 8, 2009 through August 6, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Official Receipts -				
2007 Unmined Coal	\$ 96	\$ 119	\$ 254	\$ 66
2008 Unmined Coal	41,480	51,734	105,543	28,114
Penalties	208	259	528	141
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	41,784	52,112	106,325	28,321
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	1,481	1,847	3,767	1,004
Discounts	622	776	1,582	422
Delinquent Unmined Coal	605	753	1,540	410
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	2,708	3,376	6,889	1,836
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Collected	39,076	48,736	99,436	26,485
Less: Commissions *	1,661	2,033	3,480	1,126
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due	37,415	46,703	95,956	25,359
Taxes Paid	37,369	46,615	95,864	25,329
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Due Districts		**		
as of Completion of Audit	\$ 46	\$ 88	\$ 92	\$ 30
	<hr/>	<hr/>	<hr/>	<hr/>

\* Commissions:

4.25% on \$ 98,884  
4.00% on \$ 15,413  
3.50% on \$ 99,436

\*\* Special Taxing Districts:

Health District \$ 7  
Library District 14  
Extension District 18  
Ambulance District 49

Due Districts \$ 88

The accompanying notes are an integral part of this financial statement.

WEBSTER COUNTY  
NOTES TO FINANCIAL STATEMENT

August 6, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Webster County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WEBSTER COUNTY  
NOTES TO FINANCIAL STATEMENT  
August 6, 2009  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Webster County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 6, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 8, 2009 through August 6, 2009.

Note 4. Interest Income

The Webster County Sheriff earned \$84 as interest income on 2008 Unmined Coal Taxes.

Note 5. Sheriff's 10% Add-On Fee

The Webster County Sheriff collected \$1,092 of 10% add-on fees allowed by KRS 134.119(7). The Sheriff owes \$494 in add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Webster County Sheriff collected \$330 of advertising costs and \$30 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James R. Townsend, Webster County Judge/Executive  
Honorable Frankie Springfield, Webster County Sheriff  
Members of the Webster County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Webster County Sheriff's Settlement - 2008 Unmined Coal Taxes for the period February 8, 2009 through August 6, 2009, and have issued our report thereon dated May 20, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Webster County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2008-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Webster County Sheriff's Settlement – 2008 Unmined Coal Taxes for the period February 8, 2009, through August 6, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Webster County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 20, 2011



COMMENT AND RECOMMENDATION



WEBSTER COUNTY  
FRANKIE SPRINGFIELD, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period February 8, 2009 Through August 6, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's Office has a lack of segregation of duties. The bookkeeper collects cash, prepares the daily deposit, and the daily tax collection journal. She is also responsible for the preparation of monthly reports and the issuance of the monthly tax distribution checks to each taxing district.

Segregation of duties over these functions, or the implementation of compensating controls is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets, we recommend the Sheriff segregate the duties. If that is not feasible, then compensating controls such as strong oversight by the Sheriff or a designee can be an effective alternative. This oversight should include reviewing the daily tax collection journal and comparing it to the daily deposit, agreeing the cash and checks collected with the amounts deposited. It should also include reviewing the monthly tax reports and tax distributions and comparison of those amounts to the monthly bank reconciliation. Documentation, such as the Sheriff or designee's initials or signature, should be provided on those items that have been reviewed.

*Sheriff Frankie Springfield's Response: No response.*

